

Message Text

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DRAFTED BY EA/PHL:JSARTORIUS:EBS

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FM SECSTATE WASHDC

TO AMEMBASSY MANILA

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STADIS////////////////////////////////

E.O. 11652: N/A

TAGS: AFIN, 'S, RP

SUBJECT: "LIPSTICKING"

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REF: LEE LTRS. TO SARTORIUS, SEPT. 24 AND OCT. 22

1. WHEN AMBASSADOR VISITED WASHINGTON EARLY OCTOBER, INCOMPLETE TREASURY STUDY OF "LIPSTICKING" OPTIONS WAS TILTING TOWARD OFFERING CITIBANK MORE THAN PRESENT FIVE CENTS A CHECK SERVICE PAYMENT AS INDUCEMENT TO CONTINUE CLEARING OPERATIONS. AMBASSADOR WAS SO INFORMED (BUT SUSPECTED THAT CITIBANK REALLY WANTED TO GET OUT AND WOULD NOT RESPOND TO HIGHER PAYMENT PROPOSAL.)

2. WE NOW LEARN THAT AFTER FURTHER CALCULATION AND WEIGHING OF ALTERNATIVES, TREASURY STUDY RECOMMENDED (IN ORDER OF DESIRABILITY) THAT: 1) RDO, MANILA ASSUME CLEARING OPERATION; 2) RENEGOTIATION OF SERVICE CHARGE BE EXPLORED WITH CITIBANK; OR 3) ONLY AS LAST RESORT, FUNCTION BE TRANSFERRED TO CENTRAL BANK.

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3. TREASURY FISCAL ASSISTANT SECRETARY MOSSO ACCEPTED RECOMMENDATIONS FOR RDO, BASED ON COST SAVINGS AND CONTINUING USG CONTROL OVER CLEARING OPERATION. ACCORDING TO TREASURY, RDO, WITH ADDITION OF FOUR "FAIRLY LOW PAID"

LOCALS (SALARIES TOTALING \$577 PER MONTH), CAN PERFORM FUNCTION AT COST OF SOMETHING OVER ONE CENT PER CHECK. COMPARED TO PRESENT CITIBANK FINANCIAL ARRANGEMENT, USG STANDS TO REALIZE SAVING OF \$35,000 TO \$40,000 ANNUALLY, WITH ACTUAL SAVING EVEN GREATER, SINCE CITIBANK WOULD HAVE TO BE GIVEN PAYMENT INCREASE IF IT WERE TO CONTINUE OPERATION. REQUEST FOR HIGHER RDO PERSONNEL CEILING HAS BEEN MADE WITHIN TREASURY AND DECISION SHOULD BE KNOWN WITHIN WEEK OR TEN DAYS.

4. IF FOR SOME REASON RDO PERSONNEL INCREASE NOT AUTHORIZED, TREASURY WOULD THEN SEEK TO NEGOTIATE HIGHER SERVICE CHARGE WITH CITIBANK. IT STILL BELIEVES THERE IS REASONABLE CHANCE OF CITIBANK ACCEPTANCE IF BETTER TERMS OFFERED. (FYI: BECAUSE CURRENT FINANCIAL ARRANGEMENT NETS OUT SUBSTANTIALLY IN US FAVOR, WE UNDERSTAND TREASURY COULD GO HIGHER THAN TEN CENTS A CHECK.)

5. TREASURY REGARDS THIRD ALTERNATIVE, TRANSFER CLEARING TO CENTRAL BANK, AS HIGHLY DISTASTEFUL. FEARS CB, UNLIKE AMERICAN BANK OVER WHICH USG HAS SOME LEVERAGE, WOULD HAVE NEITHER SUFFICIENT INTEREST NOR WISH TO TAKE THE TIME TO PROMPTLY AND EFFECTIVELY DETECT FORGERIES OR FRAUD. BELIEVES CB INCLINATION WOULD BE TO MORE OR LESS SIMPLY PASS BACK CANCELLED CHECKS TO TREASURY IN RETURN FOR RECEIVING US DOLLARS EQUIVALENT TO PESO PAY-OUT TO FILIPINO CHECK HOLDERS. INTER ALIA, TREASURY WOULD THEN BEAR BRUNT OF COMPLAINTS FROM INTENDED FILIPINO RECIPIENTS WHO HAD NOT RECEIVED THEIR CHECKS, WOULD HAVE TO VERIFY FROM CANCELLED CHECKS THAT THEIR SIGNATURES HAD BEEN FORGED, AND ACCORDINGLY TRY TO RECLAIM CORRESPONDING DOLLAR AMOUNTS FROM CB. TREASURY EXTREMELY RELUCTANT TO TRUST THAT CB WOULD NOT ON OCCASION ARBITRARILY REFUSE TO RETURN THE DOLLARS; AND AT MINIMUM EXPECTS CB WOULD NOT BE PARTICULARLY LIMITED OFFICIAL USE

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RESPONSIVE TO INQUIRIES OR IN ANY GREAT HURRY TO MAKE DOLLAR REFUNDS. IN SHORT, TREASURY IS TRYING TO AVOID SITUATION WHICH IT PERCEIVES AS INVITING MAJOR ADMINISTRATIVE HEADACHES. MOREOVER, WHILE UNDER RDO OR CITIBANK ALTERNATIVES, TREASURY WOULD RETAIN ITS PREFERENTIAL DOLLAR-PESO EXCHANGE RATE, RATE MIGHT BE REDUCED OR ELIMINATED IF CB ASSUMED CLEARING ROLE.

6. TREASURY FULLY AWARE, FROM EA/PHL AND RDO MANILA, OF AMBASSADOR'S GENERAL POLICY OF TRYING TO REDUCE AMERICAN OFFICIAL PRESENCE IN MANILA. HOWEVER, IT POINTS TO CONSIDERABLE COST SAVING AND STAFF AUGMENTATION WITH LOCALS RATHER THAN AMERICANS AS COMPELLING REASONS FOR RDO

COURSE.

7. WITH TREASURY ACTION IMMINENT, ANY ADDITIONAL EMBASSY VIEWS NEEDED SOONEST. IF YOU WISH TO PRESENT COUNTER ARGUMENTS, PREFER EMBTEL NOT CARRY STADIS CAPTION IN ORDER TO INSURE BROAD WASHINGTON CIRCULATION. KISSINGER

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